

**REPORT OF THE AUDIT OF THE  
KENTON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE KENTON COUNTY FISCAL COURT**

**June 30, 2005**

The Auditor of Public Accounts has completed the audit of the Kenton County Fiscal Court for fiscal year ended June 30, 2005.

The financial statements of Kenton Housing, Inc., a discretely presented component unit, have been audited by other auditors; and their report has been provided to us. The financial statements of the Kenton County Golf Course, a major proprietary fund, have also been audited by other auditors; and their report has been provided to us. Both of these audits have been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Kenton County, Kentucky, uses to prepare its financial statements. As a result, we have issued a qualified opinion on the discretely presented component unit, and business-type activities.

We have issued unqualified opinions, based on our audit and the reports of the other auditors on the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information and the respective changes in financial position thereof of Kenton County, Kentucky, as of and for the year ended June 30, 2005.

#### **Financial Condition:**

The fiscal court had total net assets of \$61,616,516 as of June 30, 2005. The fiscal court had unrestricted net assets of \$13,279,050 in its governmental activities as of June 30, 2005, with total net assets of \$59,248,372. In its business-type activities, total net cash and cash equivalents were \$336,054 with total net assets of \$2,368,144. The fiscal court's discretely presented component unit had total net assets of \$5,742,451 as of June 30, 2005. The discretely presented component unit had net cash and cash equivalents of \$440,693. The fiscal court had total debt principal as of June 30, 2005 of \$45,890,000 with \$2,935,000 due within the next year.

#### **Report Comment:**

- County Judge/Executive Should Receive His Statutory Maximum

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
KENTON COUNTY OFFICIALS .....	5
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	24
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	28
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	33
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	37
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	41
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	45
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	49
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS .....	53
NOTES TO FINANCIAL STATEMENTS .....	55
BUDGETARY COMPARISON SCHEDULES .....	77
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....	81
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	85
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	88
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	93
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	97
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	98
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	101
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	105
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Ralph Drees, Kenton County Judge/Executive  
Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kenton County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Kenton County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kenton County Golf Course, which represent 100% of the assets and revenues of the business-type activities. We also did not audit the financial statements of Kenton Housing, Inc., which represent 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Kenton County Golf Course and Kenton Housing, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Kenton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. However, the financial statements of the Kenton County Golf Course and Kenton Housing, Inc., have been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Kenton County, Kentucky, uses to prepare its financial statements.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Ralph Drees, Kenton County Judge/Executive  
Members of the Kenton County Fiscal Court

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined had the Kenton County Golf Course and Kenton Housing, Inc., been prepared using the same basis of accounting as Kenton County, Kentucky, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the Kenton County Golf Course of Kenton County, Kentucky as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, the Health Insurance Fund, and the aggregate remaining fund information for Kenton County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kenton County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2006 on our consideration of Kenton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Ralph Drees, Kenton County Judge/Executive  
Members of the Kenton County Fiscal Court

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comment:

- County Judge/Executive Should Receive His Statutory Maximum

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 29, 2006



## KENTON COUNTY OFFICIALS

For The Year Ended June 30, 2005

### **Fiscal Court Members:**

Ralph A. Drees	County Judge/Executive
Barbara Black	Commissioner
Dan Humpert	Commissioner
Adam Koenig	Commissioner

### **Other Elected Officials:**

Garry Edmondson	County Attorney
Terrance Carl	Jailer
William Aylor	County Clerk
Karen Linn	Circuit Court Clerk
Charles L. Korzenborn	Sheriff
Merrick Krey	Property Valuation Administrator
David Suetholz	Coroner

### **Appointed Personnel:**

Ivan Frye	County Treasurer
Roswald Richardson	Occupational Tax Collector
Brenda Spare	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY

**KENTON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FYE 6/30/05**

The management of Kenton County, Kentucky offers readers of Kenton County's financial statements this narrative overview and analysis of the financial activities of Kenton County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

**Financial Highlights**

At the close of the current fiscal year, the Kenton County balance sheet reported fund balances of \$16,713,232; of this amount \$171,048 is reserved for encumbrances, leaving an unreserved fund balance of \$16,542,184 available for spending at the government's discretion.

In its enterprise fund (the Golf Fund), cash and cash equivalents were \$336,054 with total assets of \$4,741,725.

Kenton County's total net assets were \$59,248,372 as of June 30, 2005, a decrease of \$1,575,053 over the previous year.

In its governmental activities, Kenton County's total indebtedness at the close of fiscal year June 30, 2005 was \$43,745,000, a reduction of \$1,136,240 from 2004.

**Overview of the Financial Statements**

This management discussion and analysis is intended to serve as an introduction to Kenton County's basic financial statements. Kenton County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

With the implementation of GASB 34 reporting requirements the State Auditor has determined that Kenton Housing, Inc. (dba Rosedale Manor Nursing Home) is a component unit of the county and the Kenton Housing, Inc. audit is discretely presented in the county audit. Because Kenton Housing, Inc. has a different fiscal year from the county and their financial records are on a modified accrual basis, as is the Kenton County Golf Course, the State Auditor has issued a "Qualified Opinion" on these audits simply because of the different accounting method. **This opinion is not a reflection on the financial condition of Kenton County or the presentation of its financial statements.** The county uses the cash basis of accounting as prescribed by the Kentucky State Local Finance Officer in accordance with KRS 68.210.

**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Overview of the Financial Statements (Continued)**

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Kenton County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Kenton County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Kenton County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Kenton County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The County has one business type activity - the operation of three county golf courses.

The government-wide financial statements include not only Kenton County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Kenton County has two such entities, the County Golf Course Fund that is presented as a blended component unit and Rosedale Manor Nursing Home presented as a discrete component unit.

**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Overview of the Financial Statements (Continued)**

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Kenton County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Kenton County can be divided into two broad categories: *governmental funds* and *proprietary funds*.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Kenton County maintains six major governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, Occupational License Fund (COLT), Bond Proceeds Fund, and Debt Service Fund, all of which are considered major funds by the County. Local Government Economic Assistance Fund (LGEA), Community Development Block Grant Fund (CDBG), Special Police Fund, Jail Canteen Fund, and Public Properties-Capital Projects Fund are considered non-major funds and are represented in a combined form.

Kenton County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

**Proprietary Funds.** Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Kenton County Golf Course.

**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Overview of the Financial Statements (Continued)**

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis.**

**Net Assets.** Net assets may serve as a useful indicator of a government's financial position and is more reflective of the government's financial health when viewed over time.

**Table 1  
Kenton County Net Assets**

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>
<b>Assets</b>						
Current and other Assets	\$ 20,909,349	\$ 19,021,880	\$ 609,673	\$ 597,333	\$ 21,519,022	\$ 19,619,213
Capital assets	84,795,415	83,971,492	4,468,336	4,144,392	89,263,751	88,115,884
Total Assets	105,704,764	102,993,372	5,078,009	4,741,725	110,782,773	107,735,097
<b>Liabilities</b>						
Current and other liabilities	2,199,266		645,111	618,581	2,844,377	618,581
Long-term liabilities	42,682,074	43,745,000	2,145,000	1,755,000	44,827,074	45,500,000
Total Liabilities	44,881,340	43,745,000	2,790,111	2,373,581	47,671,451	46,118,581
<b>Net Assets</b>						
Invested in capital assets, net of related debt	39,914,075	43,097,907	2,172,092	2,185,856	42,086,167	45,283,763
Restricted	4,890,775	2,871,415	879,254	879,254	5,770,029	3,750,669
Unrestricted	16,018,575	13,279,050	(763,448)	(696,966)	15,255,127	12,582,084
Total net assets	\$ 60,823,425	\$ 59,248,372	\$ 2,287,898	\$ 2,368,144	\$ 63,111,323	\$ 61,616,516

Key elements of governmental activities are as follows:

- Current assets and cash decreased by \$1,887,469.
- Investment in capital assets, net of related debt increased by \$3,183,832.
- Current and long-term liabilities decreased by \$1,136,340.

Key elements of business-type activities are as follows:

- Current assets and cash decreased by \$12,340.
- Investment in capital Assets, net of related debt increased \$13,764.
- Current and long-term liabilities decreased \$416,530.



**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Overview of the Financial Statements (Continued)**

**Table 2  
Statement of Activities Comparison**

<b>Expenses:</b>	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b>2004</b>	<b>2005</b>	<b>Variance</b>	<b>2004</b>	<b>2005</b>	<b>Variance</b>
General Government	\$ 13,924,250	\$ 11,388,416	\$ (2,535,834)	\$ 3,074,060	\$ 2,428,906	\$ (645,154)
Protection to Persons and Property	10,363,142	9,826,691	(536,451)			-
General Health and Sanitation	1,734,464	1,968,790	234,326			-
Social Services	1,038,894	1,020,726	(18,168)			-
Recreation and Culture	652,846	773,149	120,303			-
Bus Service	-	7,209,092	7,209,092			-
Roads	11,349,246	2,851,289	(8,497,957)			-
Transportation Facilities	-	150,001	150,001			-
Road Facilities		996,221				-
Debt Service	2,063,709	3,082,282	1,018,573			-
Capital Projects	1,346,108	1,186,475	(159,633)			-
<b>Total Expenses</b>	<b>42,472,659</b>	<b>40,453,132</b>	<b>(2,019,527)</b>	<b>3,074,060</b>	<b>2,428,906</b>	<b>(645,154)</b>
<b>Revenues:</b>						
Charges for Services	6,124,467	4,852,353	(1,272,114)	3,012,262	2,488,386	(523,876)
Operating Grants and Contributions	2,671,759	6,345,153	3,673,394			-
Capital Grants and Contributions	935,454	1,185,309	249,855			-
General Revenues	30,412,284	26,495,264	(3,917,020)	5,322	20,766	15,444
<b>Change in Net Assets</b>	<b>(2,328,695)</b>	<b>(1,575,053)</b>	<b>753,642</b>	<b>(56,476)</b>	<b>80,246</b>	<b>136,722</b>
Beginning Net Assets	62,503,845	60,823,425	(1,680,420)	2,398,494	2,287,898	(110,596)
Ending Net Assets	<u>\$60,175,150</u>	<u>\$59,248,372</u>	<u>\$ (926,778)</u>	<u>\$ 2,342,018</u>	<u>\$ 2,368,144</u>	<u>\$ 26,126</u>

**Changes in Net Assets.**

*Governmental Activities.* Kenton County's net assets decreased by \$1,575,053 in fiscal year 2005. Key elements are as follows:

- Revenues were \$38,878,079 as reflected in the Statement of Activities.
- Expenditures totaled \$40,453,132 as reflected in the Statement of Activities.

*Business-type Activities.* Net assets of the Kenton County Golf Courses increased by \$80,246 in fiscal year 2005. Key elements of this are as follows:

- Operating revenues were \$2,488,386 as reflected in the Statement of Activities.
- Operating expenditures totaled \$2,428,906 as reflected in the Statement of Activities.

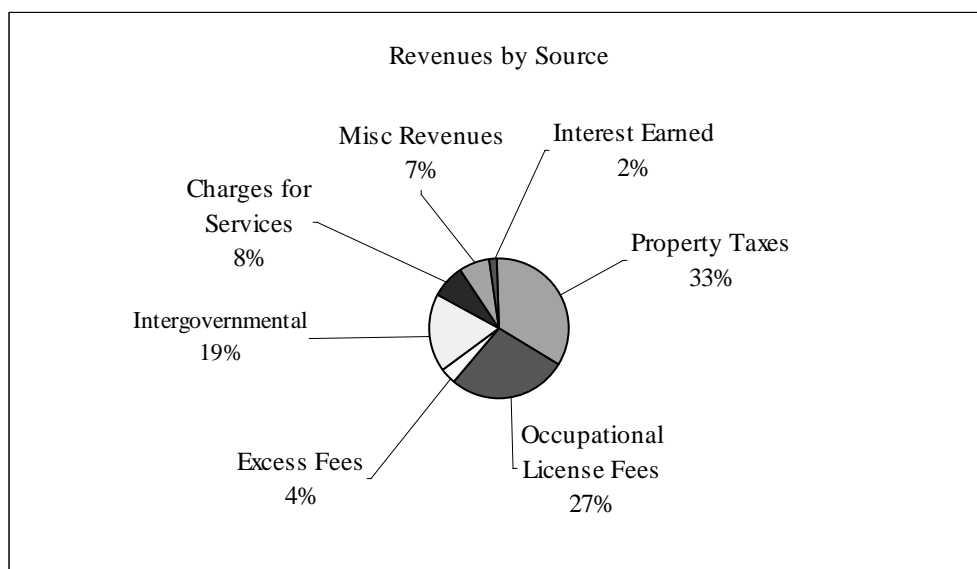
**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Government-wide Financial Analysis. (Continued)**

**Changes in Net Assets. (Continued)**

**Revenues**

For fiscal year ended June 30, 2005, revenues for the primary government totaled \$38,878,079. These revenues are depicted by source in the graph below.

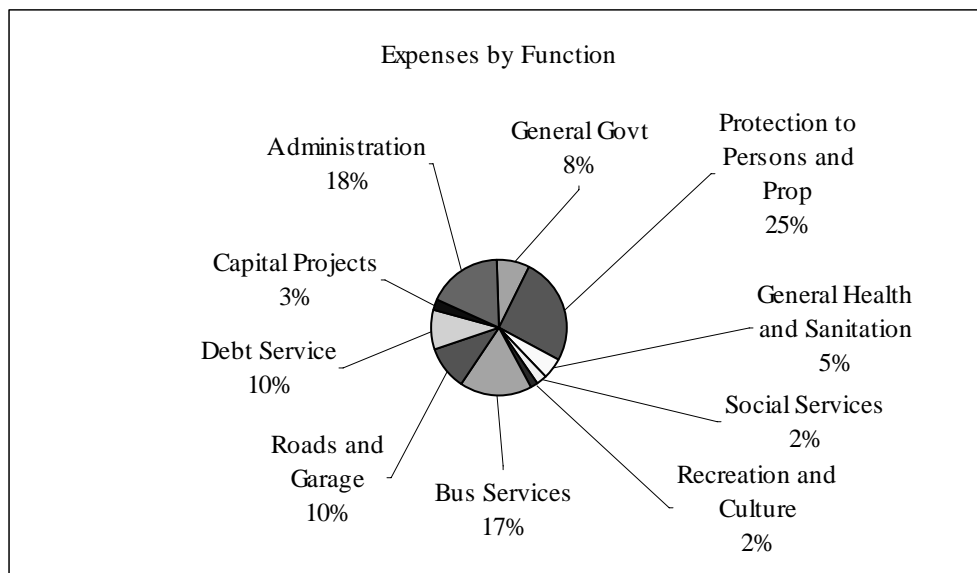


**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Government-wide Financial Analysis. (Continued)**

**Expenses**

For fiscal year ended June 30, 2005, expenses for the primary government totaled \$40,453,132. These expenses are depicted by major function in the graph below.



**Financial Analysis of the County's Funds.**

As noted earlier, Kenton County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds Overview.* The focus of Kenton County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of County governmental funds was \$19,021,880. Of this amount, \$171,048 is reserved for encumbrances. The remaining is available as working capital and for current spending in accordance with the purposes of the specific funds.

**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Financial Analysis of the County's Funds. (Continued)**

The County has six major governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund; 4) Occupational License Fund; 5) Bond Proceeds Fund; 6) Debt Service Fund. There are five non-major funds. They are the Local Government Economic Assistance Fund; Community Development Block Grant Fund, Special Police Fund, Jail Canteen Fund, and Public Properties-Capital Projects Fund.

1. The General Fund is the chief operating fund of Kenton County. At the end of the June 30, 2005 fiscal year, the unreserved fund balance of the General Fund was \$6,101,247. As a measure of liquidity, it is useful to compare unreserved fund balance to total fund expenditures and this balance represented 39.1% of the total General Fund Expenditures.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund required a transfer of \$2,474,000 from the General Fund for operations and had a balance of \$83,333 at year-end. This is a nominal balance and should be treated as excess General Fund Transfers.
3. The Jail Fund is used to account for the operation of the County's detention center. The General Fund supplements jail operations with budget transfers therefore the Jail Fund balance of \$380,749 should be treated as excess General Fund transfers. Transfers of \$4,086,000 to the Jail Fund is an all time high and continues to be an ever-increasing burden on the County's General Fund.
4. The Occupational License Fund accounts for the receipt of payroll and net profit license fees. These funds provide for mass transit, mental health/mental retardation, senior services, nursing and health care and debt service on the county parking garage. The fund had a balance of \$6,424,917, which is a decrease of \$198,277 from the previous fiscal year end.
5. The Bond Proceeds Fund is used to account for bond-funded projects during construction. The current balance is remaining from a 2004 bond issue for major road projects that are still ongoing. There was a balance of \$2,871,415 at year-end.
6. The Debt Service Fund is used to account for bond proceeds of a bond refunding completed in 2005, and the fund had a balance of \$1,598 at year end will be exhausted in 2006. This bond refunding eliminated three separate long-term obligations and will result in a savings of \$1,065,410 over the remaining life of the bonds.

**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Financial Analysis of the County's Funds. (Continued)**

Other Governmental funds consist of the LGEA Fund that receives funds from the state for coal and mineral impact fees. These are restricted to use on coal haul road and the fund had a balance of \$11,024 at year-end. The CDBG Fund accounts for restricted purpose federal grant funds supplemented by the receipt of repayments from economic development loans and had a fund balance of \$574,262 at year-end. The Special Police Fund represents the proceeds of forfeited assets from court cases and is used only for police purposes. The fund had a balance of \$129,152 at year-end. The Jail Canteen Fund represents the proceeds from sales to inmates and the net profit is used to provide inmate health, welfare, and recreational needs. The fund had a balance of \$31,133 at year-end. The Public Properties-Capital Projects Fund was for revenue bond funded projects that have been completed and thus ended the year with a zero balance.

*Proprietary Funds Overview.* The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Kenton County has two proprietary funds, the Kenton County Golf Courses Fund and an Internal Self-Insurance Service Fund. The Golf Fund had net assets of \$2,368,144, representing an increase of \$80,246 over the previous year. The Self-Insurance Fund balance increased \$137,401 during the fiscal year ending June 30, 2005, to a total balance of \$2,308,648, all of which is held in cash and cash equivalents.

**General Fund Budgetary Highlights.**

The County's General Fund revenue exceeded the budget by \$1,857,773.

Actual operating expenditures were \$3,109,206 less than amount originally budgeted by Fiscal Court.

This apparent surplus is more than absorbed by the \$6,560,000 that was transferred to the county detention center operations and the county Road Fund.

**Capital Assets and Debt Administration.**

*Capital Assets.* Kenton County's investment in capital assets for its government and business type activities as of June 30, 2005, amounts to \$88,115,884 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. The County has elected to report infrastructure assets per GASB 34 provisions.

Major capital asset events during the 2005 fiscal year included; the completion of the mobile data communication and computer aided dispatch system, infrastructure improvements, purchase of homeland security equipment and miscellaneous additions to machinery and equipment.

**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Capital Assets and Debt Administration. (Continued)**

**Table 3  
Kenton County's Capital Assets, Net of Accumulated Depreciation**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Activities</b>	
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>
Infrastructure Assets	\$	\$ 566,859	\$	\$	\$	\$ 566,859
Land	13,276,500	12,976,500	354,885	354,885	13,631,385	13,331,385
Const in Progress	2,083,284				2,083,284	
Buildings and Improvements	67,695,548	65,962,032	3,896,829	3,655,216	71,592,377	69,617,248
Other Equipment						
Vehicles and Equipment	1,740,083	4,466,101	216,622	134,291	1,956,705	4,600,392
Total Net Assets	\$ 84,795,415	\$ 83,971,492	\$ 4,468,336	\$ 4,144,392	\$ 89,263,751	\$ 88,115,884

Additional information on the County's capital assets can be found in Note 3 of this report.

*Long-Term Debt.* At the end of the 2005 fiscal year, Kenton County had total long-term debt outstanding in its governmental activities of \$43,745,000, of which \$41,200,000 is long-term debt (due after 1 year) and \$2,545,000 is short-term debt (to be paid within 1 year). Debt additions were \$15,990,000 and debt reductions were \$17,126,340 for a net decrease of \$1,136,340 during the year. The Commonwealth of Kentucky limits the amount of debt that a unit of government can issue to two percent of the total assessed value of taxable property located within that government's boundaries. The legal debt limit for Kenton County is \$177,860,658, which makes the current debt only 25% of the legal issuing authority. The county had no bonds authorized but un-issued at June 30, 2005, and no issues planned for 2006.

*Short-Term Debt.* The county had no short-term debt other than the amount of long term debt due in the next fiscal year. The county does not have any lease or lease purchase agreements as of June 30, 2005.

**Other matters.** The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2006 fiscal year budget:

The 2006 fiscal year Adopted Budget continues services at current levels while including a \$603,000 upgrade of voting machines to meet federal mandates. Road projects will be approximately \$250,000 less in 2006, due to completion of major projects during 2005.

**Kenton County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Other matters. (Continued)**

The County Detention Center continues to be a major burden on county finances with the need to budget \$4,386,000 general fund transfers to operate the detention center, this is a \$300,000 increase over 2005. The inmate population continues to grow, exacerbating jail overcrowding and putting great pressure on the fiscal court to develop a new inmate housing solution.

On a positive note, the county economic outlook is good with significant new job growth expected to increase the Occupational License Fees that are used to fund social programs and bus transit operations. New housing starts are growing annually as well as other capital construction that will increase the county tax base.

**Requests For Information**

This financial report is designed to provide a general overview of Kenton County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Kenton County Treasurer, PO Box 792 (303 Court Street), Covington, KY 41012.

THIS PAGE LEFT BLANK INTENTIONALLY



**KENTON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**KENTON COUNTY**  
**STATEMENT OF NET ASSETS-MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	Primary Government			Kenton Housing, Inc. As Of December 31, 2005
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 13,912,329	\$ 336,054	\$ 14,248,383	\$ 440,693
Investments	5,109,551		5,109,551	3,316,484
Accounts Receivable (net)				1,284,466
Concession Receivable		21,400	21,400	
Inventory		53,415	53,415	26,958
Prepaid Items				108,979
Total Current Assets	19,021,880	410,869	19,432,749	5,177,580
Non-Current Assets:				
Restricted Cash				59,752
Restricted Investments				823,318
Land	12,976,500	354,885	13,331,385	
Capital Assets - Net of Accumulated Depreciation:				
Land Improvements		3,061,718	3,061,718	
Buildings and Improvements	65,962,032	587,119	66,549,151	
Driveway		6,379	6,379	
Power Carts		40,410	40,410	
Machinery and Equipment		93,617	93,617	
Furniture and Fixtures		264	264	
Vehicles and Equipment	4,466,101		4,466,101	
Infrastructure	566,859		566,859	
Capital Assets-Not Net of Accumulated Depreciation:				
Departmental Equipment				455,763
Furniture and Fixtures				149,864
Leasehold Improvements				396,864
Motor Vehicles				87,891
Allowance for Depreciation				(723,134)
Other Assets				
Bond Defeasance Costs (Net Of Accumulated Amortization of \$220,338)		137,712	137,712	
Bond Issuance Costs (Net of Accumulated Amortization of \$36,923)		23,077	23,077	
Bond Discount (Net of Accumulated Amortization of \$41,081)		25,675	25,675	
Total Non-Current Assets	83,971,492	4,330,856	88,302,348	1,250,318
Total Assets	102,993,372	4,741,725	107,735,097	7,310,968

The accompanying notes are an integral part of the financial statements.

**KENTON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**  
**June 30, 2005**  
**(Continued)**

	Primary Government			Kenton Housing, Inc. As Of December 31, 2005
	Governmental Activities	Business-Type Activities	Totals	
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	\$	\$ 44,691	\$ 44,691	\$ 266,435
Miscellaneous Accruals/Payables				75,186
Accrued Payroll		16,083	16,083	293,589
Personal Fund Account				50,237
Accrued Compensated Absences		107,309	107,309	
Other Accrued Liabilities		40,717	40,717	
Gift Certificates Outstanding		19,781	19,781	
Bonds Payable	2,545,000	390,000	2,935,000	
Total Current Liabilities	2,545,000	618,581	3,163,581	685,447
Non-Current Liabilities:				
Bonds Payable	41,200,000	1,755,000	42,955,000	
Total Non-Current Liabilities	41,200,000	1,755,000	42,955,000	
Total Liabilities	43,745,000	2,373,581	46,118,581	685,447
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	45,642,907	2,185,856	47,828,763	
Restricted:		879,254	879,254	
For Capital Assets	2,871,415		2,871,415	
Unrestricted	10,734,050	(696,966)	10,037,084	6,625,521
Total Net Assets	\$ 59,248,372	\$ 2,368,144	\$ 61,616,516	\$ 6,625,521

The accompanying notes are an integral part of the financial statements.

**KENTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**KENTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 11,388,416	\$ 1,569,356	\$ 3,227,328	\$
Protection to Persons and Property	9,826,691	2,484,295	1,663,011	1,014,901
General Health and Sanitation	1,968,790		17,511	170,408
Social Services	1,020,726	274,228		
Recreation and Culture	773,149	58,334		
Bus Service	7,209,092		544,741	
Roads	2,851,289	466,140	607,562	
Transportation Facilities	150,001			
Road Facilities	996,221			
Debt Service	3,082,282		285,000	
Capital Projects	1,186,475			
Total Governmental Activities	40,453,132	4,852,353	6,345,153	1,185,309
Business-type Activities:				
Golf Course	2,428,906	2,488,386		
Total Business-type Activities	2,428,906	2,488,386		
Total Primary Government	\$ 42,882,038	\$ 7,340,739	\$ 6,345,153	\$ 1,185,309
Component Units:				
Kenton Housing, Inc	\$ 11,178,871	\$	\$ 11,862,282	\$
Total Component Units	\$ 11,178,871	\$	\$ 11,862,282	\$

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Unrestricted Investment Earnings

Gain on Sale of Capital Assets

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**KENTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (6,591,732)	\$	\$ (6,591,732)	\$
(4,664,484)		(4,664,484)	
(1,780,871)		(1,780,871)	
(746,498)		(746,498)	
(714,815)		(714,815)	
(6,664,351)		(6,664,351)	
(1,777,587)		(1,777,587)	
(150,001)		(150,001)	
(996,221)		(996,221)	
(2,797,282)		(2,797,282)	
(1,186,475)		(1,186,475)	
(28,070,317)		(28,070,317)	
	59,480	59,480	
	59,480	59,480	
(28,070,317)	59,480	(28,010,837)	
			683,411
			\$ 683,411
9,449,389		9,449,389	
729,492		729,492	
1,098,340		1,098,340	
12,422,356		12,422,356	
1,441,111		1,441,111	
727,854	9,014	736,868	\$ 88,111
58,780		58,780	(61,497)
567,942	11,752	579,694	
26,495,264	20,766	26,516,030	26,614
(1,575,053)	80,246	(1,494,807)	710,025
60,823,425	2,287,898	63,111,323	5,032,426
\$ 59,248,372	\$ 2,368,144	\$ 61,616,516	\$ 5,742,451

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



**KENTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

**KENTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Occupational License Tax Fund</b>	<b>Bond Proceeds Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,197,625	\$ 83,333	\$ 380,749	\$ 2,324,917	\$ 2,871,415
Investments	1,008,024			4,100,000	
<b>Total Assets</b>	<b>\$ 6,205,649</b>	<b>\$ 83,333</b>	<b>\$ 380,749</b>	<b>\$ 6,424,917</b>	<b>\$ 2,871,415</b>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 104,402	\$ 38,741	\$ 27,905	\$	\$
Unreserved:					
General Fund	6,101,247				
Special Revenue Funds		44,592	352,844	6,424,917	2,871,415
Debt Service Fund					
<b>Total Fund Balances</b>	<b>\$ 6,205,649</b>	<b>\$ 83,333</b>	<b>\$ 380,749</b>	<b>\$ 6,424,917</b>	<b>\$ 2,871,415</b>

The accompanying notes are an integral part of the financial statements.

**KENTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2005**  
**(Continued)**

<b>Debt Service Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 71	\$ 745,571	\$ 11,603,681
1,527		5,109,551
<u>\$ 1,598</u>	<u>\$ 745,571</u>	<u>\$ 16,713,232</u>
\$	\$	\$ 171,048
		6,101,247
	745,571	10,439,339
<u>1,598</u>	<u></u>	<u>1,598</u>
<u>\$ 1,598</u>	<u>\$ 745,571</u>	<u>\$ 16,713,232</u>

**Reconciliation to Statement of Changes In Net Assets:**

Total Fund Balances	\$ 16,713,232
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	107,886,226
Depreciation	(23,914,734)
Internal Service Fund is Used by Management to Charge the Cost of Health Insurance to Individual Funds. The Assets and Liabilities Are Included in Governmental Activities on the Statement of Net Assets.	2,308,648
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Bonded Debt	<u>(43,745,000)</u>
Net Assets Of Governmental Activities	<u>\$ 59,248,372</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**KENTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**KENTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Occupational License Tax Fund</b>
<b>REVENUES</b>				
Taxes	\$ 13,190,082	\$	\$	\$ 10,316,403
In Lieu Tax Payments	25,102			
Excess Fees	1,441,111			
Licenses and Permits	226,059			
Intergovernmental	3,894,991	591,083	1,957,804	544,741
Charges for Services	2,603,467	482,835	56,470	
Miscellaneous	1,573,333	140,477	549,615	171,226
Interest	554,628	17,437	13,822	117,049
Total Revenues	<u>23,508,773</u>	<u>1,231,832</u>	<u>2,577,711</u>	<u>11,149,419</u>
<b>EXPENDITURES</b>				
General Government	3,136,356			
Protection to Persons and Property	5,743,804		4,765,057	
General Health and Sanitation	469,079			1,497,436
Social Services	223,870			796,856
Recreation and Culture	41,553	684,671		
Roads		3,308,815		
Bus Services				7,209,092
Other Transportation Facilities and Services				1
Road Facilities		990,829		
Debt Service	238,332		1	
Capital Projects	1,186,475			
Administration	4,811,825	880,051	1,863,958	170,772
Total Expenditures	<u>15,851,294</u>	<u>5,864,366</u>	<u>6,629,016</u>	<u>9,674,157</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>7,657,479</u>	<u>(4,632,534)</u>	<u>(4,051,305)</u>	<u>1,475,262</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	1,515,275			
Refunding Bonds				
Premium on Bond Issuance				
Payment to Refunded Bond Escrow Agent				
Transfers From Other Funds	1,878,408	4,002,767	4,086,000	
Transfers To Other Funds	(8,741,888)	(300,169)	(1,673,539)	
Total Other Financing Sources (Uses)	<u>(5,348,205)</u>	<u>4,002,767</u>	<u>3,785,831</u>	<u>(1,673,539)</u>
Net Change in Fund Balances	2,309,274	(629,767)	(265,474)	(198,277)
Fund Balances - Beginning	3,896,375	713,100	646,223	6,623,194
Fund Balances - Ending	<u>\$ 6,205,649</u>	<u>\$ 83,333</u>	<u>\$ 380,749</u>	<u>\$ 6,424,917</u>

The accompanying notes are an integral part of the financial statements.

**KENTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>Bond Proceeds</b>	<b>Debt Service</b>	<b>Non-Major</b>	<b>Total</b>
	<b>Fund</b>	<b>Fund</b>	<b>Funds</b>	<b>Governmental</b>
				<b>Funds</b>
<b>REVENUES</b>				
Taxes	\$	\$	\$	\$ 23,506,485
In Lieu Tax Payments				25,102
Excess Fees				1,441,111
Licenses and Permits				226,059
Intergovernmental			227,142	7,215,761
Charges for Services				3,142,772
Miscellaneous			109,145	2,543,796
Interest	21,220	28,818	19,070	772,044
Total Revenues	<u>21,220</u>	<u>28,818</u>	<u>355,357</u>	<u>38,873,130</u>
<b>EXPENDITURES</b>				
General Government			275,408	3,411,764
Protection to Persons and Property			83,385	10,592,246
General Health and Sanitation				1,966,515
Social Services				1,020,726
Recreation and Culture				726,224
Roads			5,500	3,314,315
Bus Services				7,209,092
Other Transportation Facilities and Services				1
Road Facilities				990,829
Debt Service		4,118,187		4,356,520
Capital Projects				1,186,475
Administration		5,700		7,732,306
Total Expenditures	<u></u>	<u>4,123,887</u>	<u>364,293</u>	<u>42,507,013</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	<u>21,220</u>	<u>(4,095,069)</u>	<u>(8,936)</u>	<u>(3,633,883)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets				1,515,275
Refunding Bonds		15,990,000		15,990,000
Premium on Bond Issuance		93,733		93,733
Payment to Refunded Bond Escrow Agent		(15,990,000)		(15,990,000)
Transfers From Other Funds		3,538,910		13,506,085
Transfers To Other Funds	(2,040,580)		(749,909)	(13,506,085)
Total Other Financing Sources (Uses)	<u>(2,040,580)</u>	<u>3,632,643</u>	<u>(749,909)</u>	<u>1,609,008</u>
Net Change in Fund Balances	(2,019,360)	(462,426)	(758,845)	(2,024,875)
Fund Balances - Beginning	4,890,775	464,024	1,504,416	18,738,107
Fund Balances - Ending	<u>\$ 2,871,415</u>	<u>\$ 1,598</u>	<u>\$ 745,571</u>	<u>\$ 16,713,232</u>

The accompanying notes are an integral part of the financial statements.



**KENTON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**KENTON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ (2,024,875)

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	2,010,443
Depreciation Expense	(1,368,200)
Assets Disposed of, Net Book Value	(1,466,166)

Internal Service Funds Are Used by Management to Charge the Cost of Health Insurance to Individual Funds. The Net Revenues (Expenses) of this Fund Are Reported with Governmental Activities. 137,401

The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, while Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect on Net Assets.

Refunding Bonds	(15,990,000)
Payment to Refunded Bond Escrow Agent	15,990,000
Loss on Refunding	(1,062,922)

Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.

Jail Participation Lease	174,266
Bond Payments	<u>2,025,000</u>

Change in Net Assets of Governmental Activities \$ (1,575,053)

THIS PAGE LEFT BLANK INTENTIONALLY

**KENTON COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**



**KENTON COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>	<b>Governmental Activities- Internal Service Fund</b>
	<b>Kenton County Golf Course</b>	<b>Health Insurance Fund</b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 336,054	\$ 2,308,648
Concession Receivable	21,400	
Inventory	53,415	
Total Current Assets	<u>410,869</u>	<u>2,308,648</u>
Non-Current Assets:		
Capital Assets:		
Property and Equipment, Net	4,144,392	
Other Assets:		
Bond Defeasance Costs (Net of		
Accumulated Amortization of \$220,338)	137,712	
Bond Issuance Costs (Net of		
Accumulated Amortization of \$36,923)	23,077	
Bond Discount (Net of Accumulated		
Amortization of \$41,081)	25,675	
Total Non-Current Assets	<u>4,330,856</u>	
Total Assets	<u>4,741,725</u>	<u>2,308,648</u>
<b>Liabilities</b>		
Current Liabilities		
Current Portion of Long-Term Debt	390,000	
Accounts Payable	44,691	
Accrued Payroll	16,083	
Accrued Compensated Absences	107,309	
Other Accrued Liabilities	40,717	
Gift Certificates Outstanding	19,781	
Total Current Liabilities	<u>618,581</u>	
Non-Current Liabilities		
Long-Term Debt	1,755,000	
Total Liabilities	<u>2,373,581</u>	
<b>Net Assets</b>		
Restricted	879,254	
Invested in Capital Assets, Net of Related Debt	2,185,856	
Unrestricted	(696,966)	2,308,648
Total Net Assets	<u>\$ 2,368,144</u>	<u>\$ 2,308,648</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



**KENTON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**KENTON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>	<b>Governmental Activities- Internal Service Fund</b>
	<b>Kenton County Golf Course</b>	<b>Health Insurance Fund</b>
<b>Operating Revenues</b>		
Pro-Shop Sales	\$ 132,569	\$
Charges for Services		3,789,121
Refunds/Reimbursements		89,336
Green Fees	1,612,593	
Rentals-Power Carts	630,703	
Rentals-Miscellaneous	7,471	
Concession Commissions	105,050	
Total Operating Revenues	<u>2,488,386</u>	<u>3,878,457</u>
<b>Operating Expenses</b>		
Cost of Sales	97,643	
Claims Paid		3,532,172
Premiums		13,071
Payroll Expenses	1,269,787	
Golf Course Expenses	643,685	
Clubhouse and Pro-Shop Expenses	149,496	
General and Administrative Expenses	159,175	231,978
Total Operating Expenses	<u>2,319,786</u>	<u>3,777,221</u>
Operating Income	<u>168,600</u>	<u>101,236</u>
<b>Nonoperating Revenues (Expenses)</b>		
<b>Transfers In Governmental Funds</b>		
Interest Expense	(109,120)	
Bank Service Charges		(4,945)
Interest Income	9,014	41,110
Miscellaneous Income	11,752	
Total Nonoperating Revenues (Expenses)	<u>(88,354)</u>	<u>36,165</u>
Change In Net Assets	80,246	137,401
Total Net Assets - Beginning	2,287,898	2,171,247
Total Net Assets - Ending	<u>\$ 2,368,144</u>	<u>\$ 2,308,648</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**KENTON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**KENTON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Kenton County Golf Course</b>	<b>Health Insurance Fund</b>
<b>Cash Flows From Operating Activities</b>		
Receipts From Customers	\$ 2,384,399	3,789,121
Receipts from Commissions	104,450	
Claims Paid		(3,532,172)
Premiums Paid		(13,071)
Administrative Fees		(231,978)
Refunds		89,336
Payments to Suppliers	(675,020)	
Payments to Employees	(1,294,873)	
Net Cash Provided By Operating Activities	<u>518,956</u>	<u>101,236</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Proceeds from Non-Operating Income	11,750	
Net Cash Provided By Noncapital Financing Activities	<u>11,750</u>	
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition of Property and Equipment	(18,835)	
Payment of Long-Term Debt	(375,000)	
Interest Paid on Long-Term Debt	(114,745)	
<b>Net Cash Used By Capital and Related Financing Activities</b>	<u>(508,580)</u>	
<b>Cash Flows From Investing Activities</b>		
Bank Service Charges		(4,945)
Interest Earned	9,014	41,110
Net Cash Provided By Investing Activities	<u>9,014</u>	<u>36,165</u>
Net Change In Cash and Cash Equivalents	31,140	137,401
Cash and Cash Equivalents - July 1	<u>304,914</u>	<u>2,171,247</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 336,054</u></u>	<u><u>\$ 2,308,648</u></u>

The accompanying notes are an integral part of the financial statements.

**KENTON COUNTY**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>Business-Type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Kenton County Golf Course</b>	<b>Health Insurance Fund</b>
<b>Reconciliation of Net Income from Operations to Net Cash Provided by Operating Activities</b>		
Operating Income	\$ 168,600	\$ 101,236
Adjustments to Reconcile Operating Income To Net Cash Provided (Used)		
By Operating Activities:		
Depreciation Expense	342,779	
Amortization	37,293	
Changes In Assets and Liabilities:		
Concession Receivable	(600)	
Inventory	6,788	
Accounts Payable	(8,204)	
Accrued Liabilities	(28,763)	
Gift Certificates Outstanding	1,063	
Net Cash Provided By Operating Activities	<u>\$ 518,956</u>	<u>\$ 101,236</u>

The accompanying notes are an integral part of the financial statements.



**KENTON COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**KENTON COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>Flexible Spending Account Fund</b>	<b>Jail Inmate Fund</b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 7,549	\$ 25,389
Total Assets	<u>\$ 7,549</u>	<u>\$ 25,389</u>
<b>Liabilities</b>		
Amounts Held In Custody For Others	\$ 7,549	\$ 25,389
Total Liabilities	<u>\$ 7,549</u>	<u>\$ 25,389</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	55
NOTE 2.	DEPOSITS AND INVESTMENTS .....	62
NOTE 3.	CAPITAL ASSETS .....	64
NOTE 4.	NOTE RECEIVABLE.....	66
NOTE 5.	KENTUCKY ADVANCE REVENUE PROGRAM.....	66
NOTE 6.	LONG-TERM DEBT .....	67
NOTE 7.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS.....	71
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM.....	71
NOTE 9.	DEFERRED COMPENSATION .....	72
NOTE 10.	SELF-INSURANCE .....	72
NOTE 11.	RELATED-PARTY TRANSACTIONS.....	72
NOTE 12.	PRIOR PERIOD ADJUSTMENTS .....	73
NOTE 13.	ESTIMATED INFRASTRUCTURE HISTORICAL COST .....	74

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements. However, financial statements of the Kenton County Golf Course, a proprietary fund, and Kenton Housing, Inc. a discretely presented component unit, are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets, and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Kenton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Units**

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

Kenton County Public Properties

The Board of Directors of the Kenton County Public Properties are the members of the Kenton County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to the Kenton County Fiscal Court. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts, or provide financial support to the corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the County.

Discretely Presented Component Unit

The component unit column in the combined financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize this organization's separateness from the fiscal court's primary government.

Kenton Housing, Inc.

Kenton Housing, Inc. (Rosedale Manor Nursing Home) is a discretely presented component unit. The land and the building are the property of Kenton County Public Properties. They are made available to the Facility so that long-term care is available in Kenton County.

Audited financial statements for Kenton Housing, Inc., a discretely presented component unit, may be requested by contacting Kenton Housing, Inc. at 4250 Glenn Avenue, Covington, KY 41015.

**C. Kenton County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Kenton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Kenton County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Occupational License Tax Fund - The primary purpose of this fund is to account for the collection of occupational license and payroll taxes.

Bond Proceeds Fund - The purpose of this fund is to account for proceeds of general obligation bonds.

Debt Service Fund- The purpose of this fund is to account for payments of bonds and capital leases.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Community Development Block Grant Fund, Special Police Fund, Jail Canteen Fund, and Public Properties - Capital Projects Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Occupational License Tax Fund, Bond Proceeds Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund, Special Police Fund, and the Jail Canteen Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Capital Projects Fund:**

The Public Properties - Capital Projects Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

**Debt Service Fund:**

Debt services are presented as debt service funds. Debt service funds are to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.



**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales at the Kenton County golf courses. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Kenton County Golf Course Fund – The statements presented in this report are prepared on the accrual basis, whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

**Internal Service Fund**

The primary government reports the following internal service fund:

Health Insurance Fund - The Fiscal Court maintains this internal service fund to account for the health insurance provided for other funds.

**Fiduciary Funds**

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The primary government reports the following fiduciary funds:

Kenton County/Cities Tax Collection Fund - This fund accounts for payroll taxes received from businesses and remitted to the local cities and other county funds.

Jail Inmate Fund - This fund accounts for funds received from inmates after incarceration.

Flexible Spending Accounts Fund - This fund accounts for funds received from employees for their flexible spending accounts.

**Presentation of Component Units**

The financial statements present the following major discretely presented component unit: Kenton Housing, Inc.

It is reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as Kenton Housing, Inc. to emphasize this organization's separateness from the fiscal court's primary government.

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, non-dependable land improvements, depreciable land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60 years
Buildings and Building Improvements	\$ 50,000	10-75 years
Machinery and Equipment	\$ 10,000	3-15 years
Vehicles	\$ 10,000	3-15 years
Infrastructure	\$ 25,000	10-50 years

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the Governor's Office for Local Development.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the Governor's Office for Local Development. Expenditures may not exceed budgeted appropriations at the activity level.

The Health Insurance Fund was not budgeted as health insurance premiums are budgeted in the other County funds. The Kenton County/Cities Tax Collection Fund was not budgeted as the County portion is budgeted in the Occupational License Tax Fund. The Jail Canteen Fund is not budgeted, as the County is not required to approve those expenditures. The Special Police Fund is not budgeted as those expenditures are budgeted and paid through the General Fund. The funds are then transferred from the Special Police Fund. The Bond Proceeds Fund is not budgeted as those funds are also budgeted through other funds and then transferred out of the Bond Proceeds Fund. The Public Properties Corporation Fund was not budgeted as the bond payments are also budgeted through other County funds.

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**B. Investments**

As of June 30, 2005, the County had the following investments:

**Cash and Investments by Type**

<b>I. Cash</b>	<b>Cost</b>
Cash	\$ 4,064
Money Market	50,064
Total:	<u>\$ 54,128</u>
<b>II. Investments</b>	<b>Cost &lt; 1 Year</b>
Agency Notes	\$ 1,450,000
Discount Notes	2,953,215
US Treasury Securities	
Stripped Interest Payment	3,952
Total:	<u>\$ 4,407,167</u>
Other Investments:	<b>Cost</b>
Commercial Paper	<u>\$ 648,256</u>
<b>Total Investments</b>	<u><u>\$ 5,055,423</u></u>

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments (Continued)**

**Interest Rate Risk.** The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

**Credit Risk.** KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Bankers acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk. See the chart below for credit ratings for each individual investment type.

<b>Investments and Credit Ratings</b>	<b>AAA</b>	<b>A-1+</b>	<b>Cost</b>	<b>Concentrage Percentage</b>
Fixed Income Investments:				
Government Bonds	\$ 4,407,167	\$	\$ 4,407,167	87%
Commercial Paper		648,256	648,256	13%
Total Investments	\$ 4,407,167	\$ 648,256	\$ 5,055,423	100%

**Concentration of Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. See the chart above for investments that exceed five percent or more of the total investments for the County.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2005, the County's investments were not exposed to custodial credit risk.

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 13,276,500	\$	\$ (300,000)	\$ 12,976,500
Construction In Progress	2,083,284		(2,083,284)	
Total Capital Assets Not Being Depreciated	15,359,784		(2,383,284)	12,976,500
Capital Assets, Being Depreciated:				
Buildings and Improvements	87,726,374	17,669	(1,200,000)	86,544,043
Vehicles and Equipment	4,472,231	3,509,199	(182,606)	7,798,824
Infrastructure		566,859		566,859
Total Capital Assets Being Depreciated	92,198,605	4,093,727	(1,382,606)	94,909,726
Less Accumulated Depreciation For:				
Buildings and Improvements	(20,030,826)	(609,935)	58,750	(20,582,011)
Vehicles and Equipment	(2,732,148)	(758,265)	157,690	(3,332,723)
Total Accumulated Depreciation	(22,762,974)	(1,368,200)	216,440	(23,914,734)
Total Capital Assets, Being Depreciated, Net	69,435,631	2,725,527	(1,166,166)	70,994,992
Governmental Activities Capital Assets, Net	\$ 84,795,415	\$ 2,725,527	\$ (3,549,450)	\$ 83,971,492

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 354,885	\$	\$	\$ 354,885
Total Capital Assets Not Being Depreciated	354,885			354,885
Capital Assets, Being Depreciated:				
Land Improvements	6,780,153	2,760		6,782,913
Buildings	1,044,812			1,044,812
Driveways	153,901			153,901
Power Carts	550,148			550,148
Machinery and Equipment	1,441,333	16,075		1,457,408
Furniture and Office Equipment	131,574			131,574
Total Capital Assets Being Depreciated	10,101,921	18,835		10,120,756
Less Accumulated Depreciation For:				
Land Improvements	(3,506,622)	(214,573)		(3,721,195)
Buildings	(431,782)	(25,911)		(457,693)
Driveway	(143,633)	(3,889)		(147,522)
Power Carts	(474,936)	(34,802)		(509,738)
Machinery and Equipment	(1,300,279)	(63,512)		(1,363,791)
Furniture and Office Equipment	(131,218)	(92)		(131,310)
Total Accumulated Depreciation	(5,988,470)	(342,779)		(6,331,249)
Total Capital Assets, Being Depreciated, Net	4,113,451	(323,944)		3,789,507
Business-Type Activities Capital Assets, Net	\$ 4,468,336	\$ (323,944)	\$ 0	\$ 4,144,392

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 524,186
Protection to Persons and Property	435,072
General Health and Sanitation	2,275
Recreation and Culture	46,925
Roads	103,833
Transportation Facilities	150,000
Road Facilities	5,392
Administration	100,517

Total Depreciation Expense - Governmental Activities	<u>\$ 1,368,200</u>
--	---------------------

Business-Type Activities

Golf Course	<u>\$ 342,779</u>
-------------	-------------------

Total Depreciation Expense - Business-Type Activities	<u>\$ 342,779</u>
---	-------------------

**Note 4. Note Receivable**

A receivable was due from Fort Mitchell Developers to the Community Development Block Grant Fund for loans made from grant funds. On May 20, 2005 the loan agreement was modified deferring the interest due on the loan. Interest due from the date of the loan has been added to the principal amount due, and future interest will be compounded quarterly. The total of interest and principal of \$388,819 shall be due and payable not later than December 31, 2006.

**Note 5. Kentucky Advance Revenue Program**

Kenton County, Kentucky participated in the Kentucky Advance Revenue Program. The total funds borrowed were \$12,000,000. The interest income was \$167,897 and the interest expense was \$131,043, resulting in net interest earned of \$36,854. The entire amount was repaid during the fiscal year ended June 30, 2005.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
Kentucky Advance Revenue Program	<u>\$</u>	<u>\$ 12,000,000</u>	<u>\$ 12,000,000</u>	<u>\$</u>
Governmental Activities Short-Term Liabilities	<u>\$ 0</u>	<u>\$ 12,000,000</u>	<u>\$ 12,000,000</u>	<u>\$ 0</u>



**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 6. Long-Term Debt**

**A. Long Term-Participation Agreement**

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$10,495,487 of revenue bonds at various interest rates (4.5% through 7.0%), of which the County has agreed to pay \$4,428,213 principal and a proportional share of interest on the issue. This lease agreement was paid in full during the fiscal year ended 2005. The Fiscal Court paid \$2,656,340 on the principal during fiscal year 2005 and was reimbursed for \$2,482,074 of the principal paid by the General Obligation Bond - Various Purpose Bond Series 2004B.

**B. Public Properties Corporation Fund - Courthouse Facilities Project Bond Issue**

The Kenton County Public Properties Corporation issued first mortgage revenue bonds to provide funds for a courthouse facilities project dated June 1, 1998. The total bond issue of \$19,920,000 was in multiples of \$5,000 and integral multiples thereof. These bonds mature on March 1 of years between 2000 and 2029, with interest of 4.85% and 5.00% payable on March 1 and September 1 of each year. The bonds outstanding as of June 30, 2005 were \$17,855,000. Bank of New York is the paying agent. The debt service requirements for future fiscal years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 405,000	\$ 887,810
2007	425,000	868,168
2008	445,000	847,556
2009	465,000	825,972
2010	490,000	803,420
2011-2015	2,830,000	3,333,550
2016-2020	3,610,000	3,155,250
2021-2025	4,605,000	1,857,750
2026-2029	4,580,000	586,250
Totals	<u>\$ 17,855,000</u>	<u>\$ 13,165,726</u>

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 6. Long-Term Debt (Continued)**

**C. Public Properties Corporation-Park - Recreational Facilities Project Bond Issue:**

The Kenton County Public Properties Corporation issued first mortgage revenue bonds to provide funds for a park and recreational facilities project dated July 1, 1995. The total bond issue of \$2,700,000 was in denominations of \$5,000. These bonds mature on April 1 of years between 1996 and 2015, with interest of 3.5% to 5.65% payable on April 1 and October 1 of each year. However, bonds with due dates of fiscal year 2007 and later have been refunded by the issuance of General Obligation Bond - Various Purpose Bond Series 2004B. The debt service requirement for future fiscal years is as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 130,000	\$ 6,500

**D. Public Properties Corporation Fund - Parking Facilities Project Bond Issue:**

The Kenton County Public Properties Corporation issued first mortgage revenue bonds to provide funds for a parking facilities project dated December 1, 1996. The total bond issue of \$17,400,000 was in denominations of \$5,000 and integral multiples thereof. These bonds mature on December 1 of years between 1998 and 2016, with interest of 4.5% to 5.7% payable on June 1 and December 1 of each year. However, bonds with due dates of fiscal year 2008 and later were refunded by the issuance of General Obligation Bond - Various Purpose Bond Series 2004B. The debt service requirements for future fiscal years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 760,000	\$ 59,800
2007	800,000	20,400
Totals	\$ 1,560,000	\$ 80,200

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 6. Long-Term Debt (Continued)**

**E. General Obligation Bond-Various Purpose Bond Series 2004A**

The Kenton County Fiscal Court issued a general obligation bond to provide funds for various County road projects, modifications to the County detention center and acquisition of mobile data terminal network and installation dated December 9, 2003. The total bond issue of \$9,000,000 was in denominations of \$5,000 and integral multiples thereof. These bonds mature on June 30 of years between 2005 and 2014, with interest of 2.0% to 3.5% payable on June 30 of each year. The bonds outstanding on June 30, 2005 were \$8,210,000. Huntington National Bank is the paying agent and bond registrar. The debt service requirements for future fiscal years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 835,000	\$ 222,712
2007	845,000	205,912
2008	860,000	187,787
2009	875,000	167,175
2010	895,000	142,813
2011-2014	3,900,000	270,184
Totals	<u>\$ 8,210,000</u>	<u>\$ 1,196,583</u>

**F. General Obligation Bond - Various Purpose Series 2004B**

The Kenton County fiscal Court issued \$15,990,000 of its Various Purpose General Obligation (GO) Bonds, 2004 Series B, for the purpose of advance refunding a portion of the Kenton County, Kentucky, Public Properties Corporation First Mortgage Revenue Bonds (Parking Facilities Project) 1996 Series A, to advance refund a portion of Kenton County, Kentucky, Public Properties Corporation First Mortgage Revenue Bonds (Park and Recreational Facilities Project) 1995 Series A, and to reimburse the County for funds used to repay amounts due and owing under a Lease Participation Agreement by and between the Kentucky Local Correctional Facilities Construction Authority and the County of Kenton, Kentucky, acting by and through its Fiscal Court dates as of October 15, 1984 as amended February 15, 1987 and amended on February 1, 1994, ("Collectively the Refunding"). The bonds were issued in denominations of \$5,000 each and integral multiples thereof. The bonds mature on December 1 of years 2005 through 2016, with interest of 2.0% to 4.0% payable on June 1 and December 1 of each year. The bonds outstanding on June 30, 2005 were \$15,990,000. The Bank of New York Trust Company, Cincinnati, Ohio is paying agent and Bond Registrar.

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 6. Long-Term Debt (Continued)**

**F. General Obligation Bond - Various Purpose Series 2004B**

The debt service requirements for future fiscal years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$415,000	\$509,010
2007	575,000	498,391
2008	1,395,000	474,485
2009	1,430,000	435,598
2010	1,470,000	392,098
2011-2015	8,095,000	1,231,939
2016-2017	2,610,000	105,400
Totals	<u>\$ 15,990,000</u>	<u>\$ 3,646,921</u>

**G. Mortgage Revenue Refunding Bond, Series 1997**

The Kenton County, Kentucky, Public Parks Corporation issued bonds dated September 1, 1997 in the amount of \$4,690,000. The proceeds from the sale of the bonds were used to advance refund the outstanding mortgage revenue bonds, series 1990, of the Corporation, dated March 1, 1990, which were issued to pay the costs of construction, acquisition and installation of the Fox Run Golf Course.

Requirements for principal and interest payments for the next five years and thereafter are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2006	\$ 390,000	\$ 97,870
2007	410,000	80,320
2008	430,000	61,870
2009	445,000	42,090
2010	470,000	21,620
	<u>\$ 2,145,000</u>	<u>\$ 303,770</u>

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 6. Long-Term Debt (Continued)**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Long-Term Debt	\$ 42,225,000	\$ 15,990,000	\$ 14,470,000	\$ 43,745,000	\$ 2,545,000
Long-Term Participation	2,656,340		2,656,340		
Governmental Activities Long-Term Liabilities	<u>\$ 44,881,340</u>	<u>\$ 15,990,000</u>	<u>\$ 17,126,340</u>	<u>\$ 43,745,000</u>	<u>\$ 2,545,000</u>
<u>Business-Type Activities:</u>					
Mortgage Revenue Bonds-1997	\$ 2,520,000	\$	\$ 375,000	\$ 2,145,000	\$ 390,000
Business-Type Activities Long-Term Liabilities	<u>\$ 2,520,000</u>	<u>\$ 0</u>	<u>\$ 375,000</u>	<u>\$ 2,145,000</u>	<u>\$ 390,000</u>

**Note 7. Interest On Long-Term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$162,916 in interest on the jail participation agreement and \$1,944,992 in interest on bonds and notes.

**Note 8. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 9. Deferred Compensation**

On February 24, 2000, the Kenton County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax-sheltered supplemental retirement plans for all state, public school, and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 10. Self-Insurance**

The Kenton County Fiscal Court elected to begin a self-funded liability and health insurance plan in April of 1992. This self-funded plan covers all employees and county property. The County elected to purchase a stop-loss insurance policy from United of Omaha Life Insurance Company to cover losses from individual and aggregate claims once the County reached the individual and aggregate attachment points. Employees are required to assume liability for claims in excess of maximum lifetime reimbursements established by the insurance company.

Kenton County Fiscal Court contracts with Custom Design Benefits, Inc. for administration of the health insurance fund. They contract with Alternative Service Concepts, LLC to administer liability and worker's compensation claims.

**Note 11. Related-Party Transactions**

The Kenton County Fiscal Court leased office space at 501 Main Street, Covington to Humpert Wolnitzek Architects. Mr. Humpert's brother, Daniel, is a member of the Kenton County Fiscal Court. Kenton County Fiscal Court received \$19,026 from July 2004 through January 2005, at which time the Kenton County Fiscal Court sold the land and building. Daniel Humpert noted that he did abstain from all voting related to 501 Main Street.

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 12. Prior Period Adjustments**

Prior period adjustments have been made to the primary government's General Fund balance and Debt Service Fund balance. Also, the Debt Service Fund has been broken down into the Debt Service Fund and the Bond Proceeds fund. In addition, the Self-Insurance Fund has been reclassified as an Internal Service Fund, and the profit portion of the Jail Canteen Fund has been reclassified as a Governmental Fund. The inmate portion of the Jail Canteen Fund and the Flexible Spending Fund has been reclassified as Fiduciary Funds.

	Governmental Funds		
	General Fund	Jail Canteen Fund	Self Insurance Fund
Ending Fund Balances 2004	\$ 3,945,209	\$	\$ 2,190,241
2003 Special Police Fund Balance Recorded	(56,720)		
June 2004 administration fees were not recorded			(18,994)
Bicentennial Account not recorded	7,886		
Jail Canteen profits from business type to governmental		3,950	
Interest which was not recorded			
Move Proceeds from Debt Service to Bond Proceeds			
Move Flexible Spending from Governmental Activities to Fiduciary			
Move Inmate Funds to Fiduciary			
Adjusted Ending Fund Balances 2004	<u>\$ 3,896,375</u>	<u>\$ 3,950</u>	<u>\$ 2,171,247</u>

	Governmental Funds		
	Debt Service Fund	Bond Proceeds Fund	Flexible Spending Fund
Ending Fund Balances 2004	\$ 5,350,643	\$	\$ 7,142
2003 Special Police Fund Balance Recorded			
June 2004 administration fees were not recorded			
Bicentennial Account not recorded			
Jail Canteen profits from business type to governmental			
Interest which was not recorded	4,156		
Move Proceeds from Debt Service to Bond Proceeds	(4,890,775)	4,890,775	
Move Flexible Spending from Governmental Activities to Fiduciary			(7,142)
Move Inmate Funds to Fiduciary			
Adjusted Ending Fund Balances 2004	<u>\$ 464,024</u>	<u>\$ 4,890,775</u>	<u>\$ 0</u>

**KENTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 12. Prior Period Adjustments (Continued)**

	Proprietary Funds	Fiduciary	
	Jail Canteen Fund	Jail Inmate Fund	Flexible Spending Fund
Ending Fund Balances 2004	\$ 54,120	\$	\$
2003 Special Police Fund Balance Recorded			
June 2004 administration fees were not recorded			
Bicentennial Account not recorded			
Jail Canteen profits from business type to governmental	(3,950)		
Interest which was not recorded			
Move Proceeds from Debt Service to Bond Proceeds			
Move Flexible Spending from Governmental Activities			
to Fiduciary			7,142
Move Inmate Funds to Fiduciary	(50,170)	50,170	
Adjusted Ending Fund Balances 2004	<u>\$ 0</u>	<u>\$ 50,170</u>	<u>\$ 7,142</u>

The Statement of Net Assets has also been restated due to the aforementioned changes as well as the following:

Inventory was included as capital assets in the previous year, and accrued vacations payable were included as a liability.

Statement of Net Assets

	Governmental	Proprietary
Ending Balance 2004	\$ 60,175,150	\$ 2,342,018
Inventory included in capital assets	(55,607)	
2003 Special Police Fund Balance recorded	(56,720)	
Bicentennial Account not recorded	7,884	
Accrued Vacations which were recorded	770,748	
Jail Canteen profits from business type to governmental	3,950	(3,950)
Moved Jail Inmate Out of Proprietary to Fiduciary		(50,170)
June 2004 administration fees were not recorded	(18,994)	
Interest which was not recorded	4,156	
Move Flexible Spending from Governmental to Fiduciary	(7,142)	
Adjusted Ending Balance 2004	<u>\$ 60,823,425</u>	<u>\$ 2,287,898</u>

**Note 13. Estimated Infrastructure Historical Cost**

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2004 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2004 and thereafter are recorded at actual historical cost.



**KENTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**



**KENTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 12,642,000	\$ 12,642,000	\$ 13,190,082	\$ 548,082
In Lieu Tax Payments	26,500	26,500	25,102	(1,398)
Excess Fees	1,500,000	1,500,000	1,441,111	(58,889)
Licenses and Permits	170,000	170,000	226,059	56,059
Intergovernmental Revenue	2,345,500	2,345,500	3,894,991	1,549,491
Charges for Services	2,194,500	2,194,500	2,603,467	408,967
Miscellaneous	2,660,500	2,660,500	1,573,333	(1,087,167)
Interest	112,000	112,000	554,628	442,628
Total Revenues	21,651,000	21,651,000	23,508,773	1,857,773
<b>EXPENDITURES</b>				
General Government	3,155,098	3,397,581	3,136,356	261,225
Protection to Persons and Property	5,743,238	6,468,297	5,743,804	724,493
General Health and Sanitation	493,315	530,668	469,079	61,589
Social Services	263,500	271,600	223,870	47,730
Recreation and Culture	15,000	69,553	41,553	28,000
Debt Service	1,253,096	1,253,096	238,332	1,014,764
Capital Projects	1,344,200	1,383,200	1,186,475	196,725
Administration	7,123,553	5,586,505	4,811,825	774,680
Total Expenditures	19,391,000	18,960,500	15,851,294	3,109,206
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	2,260,000	2,690,500	7,657,479	4,966,979
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds From Sale of Capital Assets			1,515,275	1,515,275
Bond Proceeds	300,000	300,000		(300,000)
KARP Note	12,000,000	12,000,000	12,000,000	
KARP Note Repaid	(12,000,000)	(12,000,000)	(12,000,000)	
Transfers From Other Funds			1,878,408	1,878,408
Transfers To Other Funds	(6,560,000)	(6,560,000)	(8,741,888)	(2,181,888)
Total Other Financing Sources (Uses)	(6,260,000)	(6,260,000)	(5,348,205)	911,795
Net Changes in Fund Balance	(4,000,000)	(3,569,500)	2,309,274	5,878,774
Fund Balance - Beginning	4,000,000	4,000,000	3,896,375	(103,625)
Fund Balance - Ending	\$ 0	\$ 430,500	\$ 6,205,649	\$ 5,775,149

**KENTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 567,000	\$ 567,000	\$ 591,083	\$ 24,083
Charges for Services	470,000	470,000	482,835	12,835
Miscellaneous	99,000	99,000	140,477	41,477
Interest	5,000	5,000	17,437	12,437
Total Revenues	1,141,000	1,141,000	1,231,832	90,832
<b>EXPENDITURES</b>				
Recreation and Culture	638,000	739,600	684,671	54,929
Roads	5,024,215	4,913,155	3,308,815	1,604,340
Road Facilities	1,146,000	1,148,595	990,829	157,766
Administration	916,785	923,650	880,051	43,599
Total Expenditures	7,725,000	7,725,000	5,864,366	1,860,634
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(6,584,000)	(6,584,000)	(4,632,534)	1,951,466
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond Proceeds	3,400,000	3,400,000		(3,400,000)
Transfers From Other Funds	2,474,000	2,474,000	4,002,767	1,528,767
Total Other Financing Sources (Uses)	5,874,000	5,874,000	4,002,767	(1,871,233)
Net Changes in Fund Balance	(710,000)	(710,000)	(629,767)	80,233
Fund Balance - Beginning	710,000	710,000	713,100	3,100
Fund Balance - Ending	\$ 0	\$ 0	\$ 83,333	\$ 83,333

**KENTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,823,000	\$ 1,823,000	\$ 1,957,804	\$ 134,804
Charges for Services	55,000	55,000	56,470	1,470
Miscellaneous	426,000	426,000	549,615	123,615
Interest	5,000	5,000	13,822	8,822
Total Revenues	2,309,000	2,309,000	2,577,711	268,711
<b>EXPENDITURES</b>				
Protection to Persons and Property	4,693,665	5,141,206	4,765,057	376,149
Debt Service	337,179	337,179	1	337,178
Administration	2,004,156	1,987,115	1,863,958	123,157
Total Expenditures	7,035,000	7,465,500	6,629,016	836,484
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(4,726,000)	(5,156,500)	(4,051,305)	1,105,195
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	4,086,000	4,086,000	4,086,000	
Transfers To Other Funds			(300,169)	(300,169)
Total Other Financing Sources (Uses)	4,086,000	4,086,000	3,785,831	(300,169)
Net Changes in Fund Balance	(640,000)	(1,070,500)	(265,474)	805,026
Fund Balance - Beginning	640,000	640,000	646,223	6,223
Fund Balance - Ending	\$ 0	\$ (430,500)	\$ 380,749	\$ 811,249

**KENTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>OCCUPATIONAL LICENSE TAX FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 10,500,000	\$ 10,500,000	\$ 10,316,403	\$ (183,597)
Intergovernmental Revenue	650,000	650,000	544,741	(105,259)
Miscellaneous	125,000	125,000	171,226	46,226
Interest	100,000	100,000	117,049	17,049
Total Revenues	11,375,000	11,375,000	11,149,419	(225,581)
<b>EXPENDITURES</b>				
General Health and Sanitation	2,812,699	2,465,744	1,497,436	968,308
Social Services	4,289,435	4,665,616	796,856	3,868,760
Bus Services	7,409,076	7,675,114	7,209,092	466,022
Other Transportation Facilities and Services	2,595,790	2,300,526	1	2,300,525
Administration	200,000	200,000	170,772	29,228
Total Expenditures	17,307,000	17,307,000	9,674,157	7,632,843
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(5,932,000)	(5,932,000)	1,475,262	7,407,262
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds			(1,673,539)	(1,673,539)
Total Other Financing Sources (Uses)			(1,673,539)	(1,673,539)
Net Changes in Fund Balances	(5,932,000)	(5,932,000)	(198,277)	5,733,723
Fund Balances - Beginning	5,932,000	5,932,000	6,623,194	691,194
Fund Balances - Ending	\$ 0	\$ 0	\$ 6,424,917	\$ 6,424,917

**KENTON COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the Governor's Office for Local Development.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the Governor's Office for Local Development. Expenditures may not exceed budgeted appropriations at the activity level.

THIS PAGE LEFT BLANK INTENTIONALLY



**KENTON COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**



**KENTON COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**

	<b>LGEA</b>	<b>CDBG</b>	<b>Special</b>	<b>Jail</b>	<b>Total</b>
	<b>Fund</b>	<b>Fund</b>	<b>Police</b>	<b>Canteen</b>	<b>Non-Major</b>
			<b>Fund</b>	<b>Fund</b>	<b>Governmental</b>
					<b>Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 11,024	\$ 574,262	\$ 129,152	\$ 31,133	\$ 745,571
Total Assets	<u>\$ 11,024</u>	<u>\$ 574,262</u>	<u>\$ 129,152</u>	<u>\$ 31,133</u>	<u>\$ 745,571</u>
<b>FUND BALANCES</b>					
Unreserved:					
Special Revenue Funds	\$ 11,024	\$ 574,262	\$ 129,152	\$ 31,133	\$ 745,571
Total Fund Balances	<u>\$ 11,024</u>	<u>\$ 574,262</u>	<u>\$ 129,152</u>	<u>\$ 31,133</u>	<u>\$ 745,571</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**KENTON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**

**KENTON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

	<b>LGEA Fund</b>	<b>CDBG Fund</b>	<b>Special Police Fund</b>	<b>Jail Canteen Fund</b>
<b>REVENUES</b>				
Intergovernmental	\$ 16,479	\$ 170,408	\$ 38,832	\$ 1,423
Miscellaneous				109,145
Interest	44	16,645	2,381	
Total Revenues	<u>16,523</u>	<u>187,053</u>	<u>41,213</u>	<u>110,568</u>
<b>EXPENDITURES</b>				
General Government		275,408		
Protection to Persons and Property				83,385
Roads	5,500			
Total Expenditures	<u>5,500</u>	<u>275,408</u>		<u>83,385</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>11,023</u>	<u>(88,355)</u>	<u>41,213</u>	<u>27,183</u>
<b>Other Financing Sources (Uses)</b>				
Transfers To Other Funds			(46,716)	
Total Other Financing Sources (Uses)			<u>(46,716)</u>	
Net Change in Fund Balances	11,023	(88,355)	(5,503)	27,183
Fund Balances - Beginning	1	662,617	134,655	3,950
Fund Balances - Ending	<u>\$ 11,024</u>	<u>\$ 574,262</u>	<u>\$ 129,152</u>	<u>\$ 31,133</u>

The accompanying notes are an integral part of the financial statements.

**KENTON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Public Properties Capital Projects Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$ 227,142
	109,145
	19,070
	355,357
	275,408
	83,385
	5,500
	364,293
	(8,936)
(703,193)	(749,909)
(703,193)	(749,909)
(703,193)	(758,845)
703,193	1,504,416
\$ 0	\$ 745,571

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



**KENTON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2005**



**KENTON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2005**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses a qualified opinion on the Kenton County Golf Course, a business type activity, and Kenton Housing, Inc., a discretely presented component unit of Kenton County, Kentucky. The auditor's report also expresses an unqualified opinion on the governmental activities, each major governmental fund, the Health Insurance Fund, and the aggregate remaining fund information of Kenton County.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Kenton County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Kenton County reported in Part C of this schedule.
7. The program tested as a major program was: Cops More 2001.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Kenton County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**STATE LAWS AND REGULATIONS**

**County Judge/Executive Should Receive His Statutory Maximum**

The fiscal court budgeted \$77,259 for the Judge/Executive's salary for fiscal year ended June 30, 2005. However, on February 22, 2005 the fiscal court passed Resolution 05-04. This resolution granted the request of the Judge/Executive to voluntarily reduce his level of compensation to \$1 per year for an indeterminate period of time and that the balance of said salary be approved for the establishment of a Community Improvement Grant Program in the office of the County Judge/Executive from which grant awards will be made for projects to provide direct benefit to the citizens of Kenton County, a record of which shall become a part of the claims list for review by the court when grants are awarded. Therefore, the Judge/Executive received a salary of \$50,705 for fiscal year ended June 30, 2005. KRS 64.535 requires that the Judge/Executive receive a monthly salary of one-twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275. Based on this schedule, the County Judge/Executive was underpaid \$32,687 for fiscal year ended June 30, 2005. We recommend that the fiscal court pay the Judge/Executive the amount owed him and that they comply with this statute in the future.

*County Judge Executive Ralph Drees' Response:*

*I do not wish to receive a salary and should not be required to take money from the county.*

**Auditor's Reply:**

The Auditor of Public Accounts is required to audit the local government's compliance with state laws and regulations. As stated above, KRS 64.535 requires the County Judge/Executive to receive 1/12<sup>th</sup> the amount indicated by the salary schedule in KRS 64.5275 on a monthly basis, and the County Judge/Executive's failure to do so constitutes noncompliance with state law.

**KENTON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

None

**KENTON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2005**



**KENTON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2005**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Justice</u>		
Direct Program:		
Cops More-2001 (CFDA #16.710)	2001CLW X0053	\$ 1,000,000
Local Law Enforcement Block Grant- (CFDA #16.592)	2004-LB-BX-1651	6,500
Cops in School Grant- (CFDA #16.710)	2001SHW X0430	<u>91,474</u>
Total U.S. Department of Justice		<u>\$ 1,097,974</u>
<u>U.S. Federal Emergency Management Agency</u>		
Department of Homeland Security:		
Passed Through State Department of Military Affairs-		
WMD03-Part I (CFDA #97.005)	M-03138124	\$ 56,202
WMD03-Part II (CFDA #97.007)	M-03254738	139,969
EM Performance (CFDA #97.042)	MA -05029993	<u>35,250</u>
Total U.S. Federal Emergency Management Agency		<u>\$ 231,421</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 1,329,395</u></u>

**KENTON COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2005**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kenton County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Ralph Drees, Kenton County Judge/Executive  
Members of the Kenton County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kenton County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 29, 2006. The reports on the Kenton County Golf Course and Kenton Housing, Inc. were qualified because the financial statements have been prepared under accounting principles generally accepted in the United States of America. Kenton County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We did not audit the Kenton County Golf Course, a major proprietary fund, or Kenton Housing, Inc., a discretely presented component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kenton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Kenton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters (Continued)

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- County Judge/Executive Should Receive His Statutory Maximum

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 29, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ralph Drees, Kenton County Judge/Executive  
Members of the Kenton County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Kenton County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Kenton County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kenton County's management. Our responsibility is to express an opinion on Kenton County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kenton County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kenton County's compliance with those requirements.

In our opinion, Kenton County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Kenton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kenton County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 29, 2006



**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**KENTON COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**




**CERTIFICATON OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**KENTON COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2005

The Kenton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Fund was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Name  
Judge Executive

  
\_\_\_\_\_  
Name  
County Treasurer